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SUPREME COURT, U.S.

No. 97-2064

In The

Supreme Court of the United States

October Term, 1997

TEXTILE PRODUCTIONS, INC.,

Petitioner,

vs.

THE MEAD CORPORATION
and FIBER TRIM SEWING COMPANY,

Respondents.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Does a decision of the Federal Circuit Court of Appeals which interprets the provisions of a contract and applies state law contract doctrines present this Court with a novel and unsettled question of federal law?

2. When the undisputed facts establish that the plaintiff assigned to the defendant all rights under any to be issued patent in exchange for a contract to manufacture the defendant's "requirements" for an invention, does a district court err in holding that the plaintiff has no standing to sue the defendant for patent infringement?

LIST OF PARTIES

The parties to this case are Textile Productions, Inc., The Mead Corporation and Fiber Trim Sewing Company; the parties have no publically traded parent or nonwholly owned subsidiary companies.

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OPINIONS BELOW

The Opinion of the United States Court of Appeals for the Federal Circuit, reported at 134 F.3d 1481 (Fed. Cir. 1998), affirmed the decision of the United States District Court for the Eastern District of Michigan, which granted summary judgment in favor of Respondents, The Mead Corporation ("Mead") and Fiber Trim Sewing Company ("Fiber Trim"). The Federal Circuit denied a Petition for Rehearing and Rehearing *En Banc*.

JURISDICTION

Petitioner, Textile Productions, Inc. ("Textile"), brought this action under 28 U.S.C. § 1338, asserting that Mead and Fiber Trim were infringing a patent owned by *Mead*. The District Court held that Textile had no proprietary rights under Mead's patent and no standing to assert claims for patent infringement, and, therefore, dismissed the Complaint. The Federal Circuit found that Textile had no patent rights, but only state law claims for breach of contract, and affirmed the dismissal for lack of federal subject matter jurisdiction. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

The facts of the case are substantially set forth in the Opinion, 134 F.3d at 1482-1483. Mead and Textile employees jointly invented a wire harness sock, and Textile filed a patent application. *Id.* at 1482. During the

pendency of the application, Textile and Mead executed two agreements ("Agreements") whereby Textile agreed to "assign its entire interest in and to any patents derived" from the application to Mead; in exchange, Mead promised to pay half of the patent prosecution expenses, and to purchase from Textile 100% of Mead's "requirements" for the socks for the longer of three years, the pendency of the application, or the life of the patent, if one were to ever issue. *Id.* at 1482-1483. A patent (U.S. Patent No. 5,016,859, the "Patent") eventually did issue, and, in accordance with the Agreements, Textile assigned its rights under the Patent to Mead.

The circumstances surrounding the execution of the Agreements – presented through the affidavit of Textile's then president – were undisputed. Textile's president believed that the Agreements were in Textile's best interests because anticipated future demand for the socks was unknown, expenses associated with the attempt to obtain a patent were mounting, Mead was required to purchase socks from Textile even if the patent application were unsuccessful and he was confident in the ability of Textile to manufacture quality products and provide satisfactory service to Mead. Affirmation of Ronald Billbury ("Billbury Aff."), ¶¶8-9.[1] Textile's president also testified that he understood that the Agreements assigned to Mead all rights under any to be issued patent, and that neither he (as a co-inventor) nor Textile (as his employer) retained any patent rights. *Id.* at ¶¶7-12. Instead, Textile traded

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[1] The Billbury Aff. was included as pages 186-206 of the Appendix for the Federal Circuit.

any patent rights for the contractual manufacturing rights provided by the Agreements. *Id.*

By their express terms, the parties' Agreements did not (1) convey to Textile any express right or license under any to be issued patent; (2) permit Textile to manufacture socks other than for Mead; (3) permit Textile to sell socks to third parties (unless Mead consented); (4) grant Textile a right to initiate infringement actions; or (5) prohibit Mead from licensing third parties to manufacture, use and/or sell the socks to persons other than Mead.

The District Court found that the Agreements did not transfer any rights to Textile under the Patent, and, therefore, Textile had no standing to assert a patent infringement claim. The Federal Circuit affirmed, framing the issue as "whether a requirements contract for a patented product automatically converts the exclusive supplier into an exclusive licensee of the patent," with standing to sue for infringement. 134 F.3d at 1484. Finding that "contractual manufacturing rights of a party do not alone . . . confer a right to exclude all others from making an invention," the Federal Circuit held that Textile did not own any of the proprietary rights represented by the Patent, and, therefore, affirmed the dismissal of the Complaint.[2] *Id.*

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[2] The District Court dismissed the Complaint with prejudice; the Federal Circuit held that the Complaint could fairly be read to assert state law breach of contract claims, and that any state law claims should be dismissed without prejudice. 134 F.3d at 1485-1486.

REASONS FOR DENYING THE WRIT

The Federal Circuit, applying its *en banc* decision in *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 35 U.S.P.Q. 2d 1065 (Fed. Cir. 1995), *cert. denied*, 116 S. Ct. 184 (1995), correctly held that the grant of an exclusive contractual right to manufacture a patentee's "requirements" for a product does not constitute a transfer of the proprietary right under a patent to exclude others from making an invention, and, therefore, does not grant the recipient of the contractual right the ability to bring claims for patent infringement.

The Petition does not set forth any compelling argument why this case presents some principle of federal law which demands this Court's attention, nor could it. This is an ordinary, state law breach of contract action. The Petition is nothing more than an attempt to show that every court which has reviewed the Agreements has misinterpreted their terms. However, the supposed erroneous interpretation of the Agreements (allegedly committed by the District Court, the Federal Circuit panel and then apparently the entire Federal Circuit in denying *en banc* review) is not grounds to invoke this Court's jurisdiction. Similarly, the supposed inability of the District Court and the Federal Circuit to correctly apply the provisions of the Uniform Commercial Code, Michigan law on the fiduciary duties of agents and other state contract law doctrines does not merit this Court's intervention. This case does not afford the Court an opportunity to resolve any novel or unsettled questions of federal law. Finally, Textile's substantive arguments have no legal basis, and the decisions of both the District Court

and the Federal Circuit were correct on the merits. For these reasons, the Petition should be denied.

A. A CASE THAT PRESENTS ONLY THE QUESTION OF WHETHER THE TERMS OF A PARTICULAR AGREEMENT AMOUNT TO A TRANSFER OF PROPRIETARY RIGHTS UNDER A PATENT DOES NOT PRESENT A NOVEL OR UNSETTLED QUESTION OF FEDERAL LAW.

The patent statutes at issue have remained unchanged for years. A patent provides the owner with a proprietary right to exclude others from making, using or selling the invention. 35 U.S.C. § 154. Each of the proprietary rights to exclude others is a *res* that may be transferred by assignment (where the patentee conveys "title" to the right) or by an exclusive license (where the patentee retains title). 35 U.S.C. § 261. Only a "patentee" may bring a claim for infringement of the patent. 35 U.S.C. § 281. A "patentee" includes both the named patentee and "any successors in title." 35 U.S.C. § 100(d).

Since its inception, the Federal Circuit has decided a number of cases defining who qualifies as a "patentee" or a "successor in title" with standing to bring an infringement claim under these statutes. To assert a claim for patent infringement, the plaintiff must either be the patentee itself or one to whom the patentee has assigned a "whole patent right," "an undivided share" of the whole patent, or the undivided rights in a specified geographic region of the United States. *Abbott Lab. v. Diamedix Corp.*, 47 F.3d 1128, 1131 (Fed. Cir. 1995), *citing Waterman v. Mackenzie*, 138 U.S. 252 (1991). In addition to "assignees,"

exclusive licensees who have received the patentee's "substantial rights" have standing. *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870 (Fed. Cir. 1991).

An exclusive licensee who has received all of the proprietary rights under the patent may bring suit for infringement without joining the patentee. *Vaupel, supra; Para-Ordnance Mfg. v. SGS Importers Int'l*, 73 F.3d 1085, 1087 (Fed. Cir. 1995), *cert. denied*, 117 S. Ct. 80 (1996). An exclusive licensee of one of the rights to exclude others from making, using or selling the invention – but not all three – will have standing to sue, but only as a co-plaintiff with the patentee. *Kalman v. Berlyn Corp.*, 914 F.2d 1473 (Fed. Cir. 1990); *Weinar v. Rollform, Inc.*, 744 F.2d 797 (Fed. Cir. 1984), *cert. denied*, 105 S. Ct. 1844 (1985); *Duplan Corp. v. Deering Milliken Research Corp.*, 522 F.2d 809 (4th Cir. 1975).

The Federal Circuit has recognized that a patentee may grant a third party a license to make, use or sell the invention, without transferring the proprietary right to exclude others. *Ortho Pharm. Corp. v. Genetics Inst.*, 52 F.3d 1026 (Fed. Cir. 1995), *cert. denied*, 116 S. Ct. 274 (1995). Accordingly, not every contract with a patentee contains a transfer of the proprietary rights under a patent, and not every contract which deals with a patented invention gives the recipient the right to sue for patent infringement.

The Federal Circuit's *en banc* decision in *Rite-Hite* illustrates these principles. In *Rite-Hite*, the Federal Circuit was faced with independent sales organizations ("ISO's") who had contracted for the exclusive right to

sell the patentee's production of the patented product. The Federal Circuit held that while the patentee's grant to the ISO's of the exclusive contractual right to sell its production of the invention contained an "implied license" under the patent, the grant of a contractual right itself did not constitute a transfer of the *proprietary* right under the patent to exclude others from selling the invention. *Rite-Hite*, 56 F.3d at 1553. Since there was no transfer of the proprietary right under the patent to exclude others, the ISO's had no standing to assert infringement claims. *Id.*

This case, like *Rite-Hite*, required the Federal Circuit to interpret the Agreements to ascertain the nature of the rights they conveyed. Applying its well established standing principles, the Federal Circuit found that the parties intended for Textile to possess only the contractual right to manufacture socks for Mead and Mead's customers. Opinion, 134 F.3d at 1485. Consistent with its decision in *Rite-Hite*, the Federal Circuit held that "contractual manufacturing rights of a party do not alone" constitute a transfer of the proprietary rights under the patent, and, as a result, Textile had no standing to sue for patent infringement. *Id.* Instead, Textile is limited to its state law remedies for breach of contract.

This case simply does not present the Court with any reason to assert jurisdiction. Even if, as Textile asserts, the District Court and the Federal Circuit both misinterpreted the Agreements in determining that they conveyed only manufacturing, and not patent rights (and no such misinterpretation occurred), that supposed misinterpretation at best constitutes a misapprehension of facts. Of course, a lower court's misapprehension of facts

is an insufficient basis for granting certiorari. Sup. Ct. R. 10.

Similarly, assuming – as Textile contends – that both the District Court and the Federal Circuit erred in applying the provisions of the Uniform Commercial Code, in applying common law contract doctrines or in analyzing the fiduciary duties of agents (and they did not), that supposed error would not merit this Court's involvement. Again, the supposed misapplication of well established state law legal principles to the facts of a particular case is no basis for this Court's review. Sup. Ct. R. 10.

The Petition presents the Court with no novel questions of federal law, much less questions of sufficient importance to occupy the time of this Court. Even if Textile were correct in its claims of error (which it is not), those errors simply do not present issues that merit the invocation of this Court's jurisdiction. For this reason alone, the Petition should be denied.

B. THE FEDERAL CIRCUIT CORRECTLY HELD THAT TEXTILE'S CLAIMS, IF ANY, WERE FOR BREACH OF CONTRACT, NOT PATENT INFRINGEMENT.

Although a petition for certiorari is not the forum for exploration of the parties' arguments on the merits of the facts in a particular case, Textile's Petition does just that. Textile's arguments are flawed. They are neither substantively correct, nor provide any basis on which this Court should issue a writ of certiorari.

1. No implied state law duties can transform a contractual right to manufacture goods for a patentee into a transfer of proprietary rights under a patent.

At the time the Agreements were negotiated, the parties had developed an invention and had submitted a patent application, the success of which was in substantial doubt and the costs of which were mounting. As a co-inventor of the socks, Mead had the right to make, use and sell rights under any patent that could be obtained, co-inventor rights that existed even if Mead did not pay a penny towards the prosecution expenses. The undisputed testimony before the District Court – from Textile's own President – was that, in light of these circumstances, Textile decided to trade all rights under any to-be-issued patent for (a) a presently effective requirements contract; and (b) Mead's promise to pay half of the expenses to prosecute the patent. Billbury Aff., ¶¶7-12.

The express terms of the Agreements confirm this arrangement. Under the Agreements, Textile was to "assign its entire interest in and to any and all patents derived therefrom to [Mead]"; in exchange, Textile obtained a contract obligating Mead to purchase "100%" of its "requirements" of socks exclusively from Textile, a requirements contract which was in effect even if the patent application were unsuccessful. Textile also obtained Mead's promise to pay one-half of the expenses in pursuing the application. In essence, Textile traded a bird in the hand (a presently extant requirements contract and reimbursement for patent prosecution expenses) for two in the bush (Textile's potential profits emanating from co-inventor rights in a patent, if one were to issue).

Given these facts and this undisputed testimony, both the District Court and the Federal Circuit correctly held that Textile bargained for and the Agreements only provided Textile with contractual manufacturing – not patent – rights. Accordingly, both courts correctly held that Textile's remedy was a state law breach of contract action, not a federal action for patent infringement.

The Petition continues Textile's campaign to rewrite the Agreements, to impose obligations upon Mead for which Textile never bargained and to reallocate the consideration which the parties exchanged. Textile argues that, despite their terms, the Agreements did not constitute merely a "requirements" contract, but an "exclusive dealing" arrangement.[3] Textile then argues that, as an exclusive dealing contract, Mead was under an "implied" UCC duty to sell only Textile's products, that this implied duty amounted to a promise not to grant further "licenses" to others to manufacture products for sale by Mead, and that the implied UCC duties transformed Textile's contract rights into an "exclusive" patent license, giving it standing to sue for patent infringement. Petition, 8, 17-24. The Federal Circuit correctly rejected Textile's "implied duty" arguments.

First, Textile's implied duty arguments confuse the grant of private rights to fabricate an item with the transfer of the governmentally conferred patent right to exclude others. Whether characterized as a requirements

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[3] Petition, 8, 17-24, *citing* U.C.C. § 2-306, *Gestetner Corp. v. Case Equipment Co.*, 815 F.2d 806 (1st Cir. 1987); *Kardios Systems Corp. v. Perkin-Elmer Corp.*, 645 F. Supp. 506 (D. Md. 1986); and *Tigg Corp. v. Dow Corning Corp.*, 962 F.2d 1119 (3rd Cir. 1992).

contract or an "exclusive dealing agreement," the Federal Circuit correctly held that the grant of contractual rights to fabricate products is not the same as and does not constitute a transfer of the proprietary right to exclude others from manufacturing an invention. Opinion, 134 F.3d at 1484. They are simply apples and oranges, and no quantum of "implied duties" can metaphysically change a contractual right to manufacture into a transfer of the proprietary right to exclude others.

Second, Textile's implied duty arguments in the end amount to nothing but the unsupportable proposition that, *whenever* a patentee enters into a contract with a third party to fabricate the patentee's own "requirements" of the patentee's patented product, the patentee *sub silentio* transfers the governmentally granted proprietary right to exclude others from making the invention. Textile argues that because it has an arrangement with Mead that Mead will buy its requirements of the patented product from Textile, implied contract duties imposed by state law transformed its contract rights into rights under Mead's patent, giving Textile standing to sue Mead for infringement. Textile advocates this *per se* rule notwithstanding the fact that Mead never relinquished the right to license others to manufacture the patented product, and that the parties' Agreements provide that Textile expressly conveyed to Mead the very rights it seeks to imply. The shallowness of its contentions is perhaps best revealed by the fact that Textile finds "patent rights" not in the parties' Agreements or in their testimony, but in implied duties derived from various UCC provisions. The Federal Circuit did not err by refusing to adopt Textile's *per se* rules, or in refusing to use the UCC to find an

implied transfer of patent rights to exclude others. The Federal Circuit correctly rejected Textile's implied duty theories.

2. Textile was not a "field of use" licensee.

Textile also argues that the Agreements grant Textile a "field of use license" under the Patent to make socks for Mead, and that this field of use license is sufficient to confer standing. Petition, 8-17. Indeed, the only reason Textile posits for this Court's assertion of jurisdiction is that the Federal Circuit somehow overturned "148 years" of precedent by refusing to grant Textile "field of use" standing to assert infringement claims. *Id.*

The primary problem with Textile's argument is its continued confusion of contractual rights of fabrication with the transfer of the proprietary interest under the Patent to exclude others from making the invention. Textile has no "field of use" license under the Patent; Textile merely has the contractual rights to fabricate socks for Mead and Mead's own customers, and an implied license, *i.e.*, an implied promise that Mead would not sue Textile for infringement. This contractual right is not a transfer of a proprietary right under the Patent to exclude others.[4]

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[4] Since Textile only received manufacturing, and not patent rights, its reliance on the dicta of *Waterman v. Mackenzie*, 138 U.S. 252 (1891) and *Independent Wireless Tel. Co. v. Radio Corp. of America*, 269 U.S. 459 (1926) is unavailing. Those cases dealt with exclusive patent licenses, not mere manufacturing contracts.

Second, on the assumption that Mead did transfer some portion of the proprietary rights under the Patent (which it manifestly did not), that alleged transfer is insufficient to confer standing to sue for infringement. To have standing to bring a claim for infringement, one must have been received a transfer of one of the complete proprietary rights under a patent; that is, one must have received the right to exclude *all* others from making, using or selling the invention within the United States or a designated geographic territory thereof, and not merely a right to exclude a single category of potential users. 35 U.S.C. § 261; *compare, Etherington v. Hardee*, 290 F.2d 28, 29 (5th Cir. 1961); *Channel Master Corp. v. JFD Electronics Corp.*, 260 F. Supp. 568, 571 (E.D.N.Y. 1966). *Cf., E. W. Bliss Co. v. United States*, 253 U.S. 187 (1920). No court has granted standing to a "licensee" who possessed the exclusive right to manufacture an item for a single customer. Therefore, even if Textile were correct and even if Mead had somehow, contrary to the express terms of the parties' Agreement, *sub silentio* transferred its proprietary right under the Patent to exclude others from making the invention for Mead, that limited "field of use" is too narrow to confer standing to sue for infringement. Textile's remedy, if it were entitled to one at all, is simply to sue Mead for breach of contract, not patent infringement. The Federal Circuit did not err in rejecting Textile's field of use assertions.

3. No fiduciary duty can transform a contractual right of manufacture into the transfer of a proprietary right to exclude others from making the invention under the patent.

Textile also argues that Mead was its exclusive sales agent, and, as such, Mead was under a fiduciary duty to refrain from licensing third parties to make socks for non-Mead customers. Petition, 24-26. Textile continues to labor under its assumption that the Agreements transferred to Textile some portion of Mead's rights to exclude others under the Patent, when Mead transferred no such rights whatsoever. Textile's fiduciary duty assertions cannot enlarge a transfer of proprietary rights when no such rights were transferred *ab initio*. Textile's assertions, if meritorious, would simply create a claim for breach of contract, nothing more.

In any event, Textile's arguments have no substantive merit. While it may be true that a fiduciary may not deal in the subject matter of his agency in violation of a duty to his principal,[5] that maxim has nothing to do with this case. These were two commercial parties negotiating sophisticated agreements, with Textile being represented by counsel. Despite the arms' length negotiations, there is nothing in the Agreements which obligates Mead to continue to be in the business of selling socks, and, more important, nothing in the Agreements prevents Mead

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[5] Petition, 22-26, *citing* U.C.C. § 2-306, *Parev Products Co. v. I. Rokeach & Sons, Inc.*, 124 F.2d 147 (2nd Cir. 1941), *Foster v. Callaghan & Co.*, 248 F. 944 (S.D.N.Y. 1918), *Burton v. Burton*, 332 Mich. 326, 51 N.W.2d 297 (1952) and *Stephenson v. Golden*, 279 Mich. 710, 276 N.W. 849 (1937)

from deciding to leave the active buying and selling of socks and simply licensing the patent rights which it bargained to receive in the Agreements. The Agreements do not impose any fiduciary duty upon Mead. The Federal Circuit correctly disregarded Textile's agency arguments.

4. Textile's consideration under the Agreements was reimbursement for prosecution expenses and the right to manufacture socks for Mead regardless of whether a patent were to issue.

Textile finally argues that Mead was under an implied obligation not to grant additional manufacturing licenses because, if no such "implied" obligation exists, Mead's promise to buy socks from Textile would be illusory. Petition, 26-29, *citing Wood v. Lucy, Lady Duff-Gordon*, 222 N.Y. 88, 118 N.E. 214 (1917) and its progeny. Textile once again ignores the history of the Agreements and the obligations which they imposed.

At the time it executed the Agreements, Textile received substantial consideration for transferring rights to Mead under any to be issued patent. Textile received a requirements contract obligating Mead to purchase its requirements of socks from Textile, and Mead's promise to pay one-half of the mounting patent prosecution expenses. Indeed, Mead's contractual obligation to buy socks from Textile existed during the pendency of the patent application, and continued for three years even if no patent issued.

Textile's rights to manufacture under the requirements contract during the pendency of the patent application (and thereafter) and Mead's agreement to pay prosecution expenses constituted valid consideration for Textile's rights under any to be issued patent. While it is true that, once the Patent did in fact issue, Mead could cease purchasing socks from Textile and simply choose to receive royalties from third parties, Mead bargained for that advantageous position by obligating itself to pay the mounting prosecution expenses when it was unclear that the effort to obtain patent protection would succeed, and to be bound by a requirements contract that was effective even if no patent were issued. Quite simply, Mead took the risk that a patent would issue while Textile mitigated the risk by signing the Agreements and by receiving benefits that Textile would enjoy even if the patent application were unsuccessful. While the passage of time has apparently led Textile to conclude that it made an unfavorable deal, and while Textile may now wish that it had demanded more or different consideration, the District Court and the Federal Circuit did not err by refusing Textile's invitation to rewrite the Agreements, reallocate consideration and shift risks. *Turner Holdings, Inc. v. Howard Miller Clock Co.*, 657 F. Supp. 1370, 1380 (W.D. Mich. 1987); *Upjohn Co. v. New Hampshire Ins. Co.*, 438 Mich. 197, 206, 476 N.W.2d 392, 397 (1991). The Federal Circuit properly rejected Textile's *Lucy, Lady Duff-Gordon* arguments.

CONCLUSION

The Petition presents the Court with no important question of federal law, but only Textile's assertions that the District Court and a Federal Circuit panel misinterpreted the Agreements and misapplied the provisions of the Uniform Commercial Code, common-law contract principles and other state law doctrines. Textile's assertions not only are devoid of substantive legal merit, they are the antithesis of the important matters which properly occupy this Court's attention. The Petition should be denied.

Respectfully submitted,

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